Financial Statements

Keystone Peer Review Organization, Inc.

Item: 2014 and 2013 Audited Financial Statement

Date Audited: December 31, 2014

Firm Name: Kreischer Miller

Date Issued: March 10, 2015

KEYSTONE PEER REVIEW ORGANIZATION, INC. AND SUBSIDIARIES AND AFFILIATE

Consolidated Financial Statements

December 31, 2014 and 2013

Kreischer Miller

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KEYSTONE PEER REVIEW ORGANIZATION, INC.
AND SUBSIDIARIES AND AFFILIATE

December 31, 2014 and 2013
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Kreischer Miller

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Independent Auditors' Report

Board of Directors and Stockholder
Keystone Peer Review Organization, Inc.
Harrisburg, Pennsylvania

We have audited the accompanying consolidated financial statements of Keystone Peer Review Organization, Inc. and Subsidiaries and Affiliate which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Keystone Peer Review Organization, Inc. and Subsidiaries and Affiliate as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information in Schedule I is presented for purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Kreischer Miller

Horsham, Pennsylvania
March 10, 2015

KEYSTONE PEER REVIEW ORGANIZATION, INC.
AND SUBSIDIARIES AND AFFILIATE

Consolidated Balance Sheets
December 31, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,248,502	$ 12,519,084
Investments, available-for-sale	-	11,325,591
Accounts receivable	7,136,386	5,626,158
Unbilled receivables	800,435	821,952
Prepaid contract costs	79,525	185,012
Prepaid expenses and other current assets	664,776	580,475
Deferred income taxes	85,000	598,000
Total current assets	16,014,624	31,656,272
Property and equipment, net	663,545	609,070
Investment in Nant Health, LLC	185,691	200,000
Investments, deferred compensation plan, available-for-sale	908,234	737,555
Intangible assets, net	11,137,453	4,675,920
Goodwill, net	4,736,073	785,762
Deferred income taxes	167,000	334,000
	$ 33,812,620	$ 38,998,579
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	$ 752,079	$ 247,030
Accrued liabilities	4,426,735	3,896,397
Billings in excess of costs and estimated earnings	1,629,230	-
Total current liabilities	6,808,044	4,143,427
Deferred compensation	908,392	760,485
Contingent payment	372,000	-
Contingent consideration	186,269	290,797
	8,274,705	5,194,709
Stockholder's equity:		
Common stock, no par value; 100,000 shares authorized, issued and outstanding	75	75
Accumulated other comprehensive income	104,857	13,670
Additional paid-in capital	14,508,065	-
Retained earnings	10,924,918	33,790,125
	25,537,915	33,803,870
	$ 33,812,620	$ 38,998,579

See accompanying notes to consolidated financial statements.

KEYSTONE PEER REVIEW ORGANIZATION, INC.
AND SUBSIDIARIES AND AFFILIATE

Consolidated Statements of Operations
Years Ended December 31, 2014 and 2013

	2014	2013
Revenue:		
Operating revenue	$ 45,918,742	$ 38,508,355
Expenses (Schedule I):		
Direct costs	21,951,038	17,223,549
Indirect, general and administrative costs	19,801,055	16,890,201
	41,752,093	34,113,750
Income from operations	4,166,649	4,394,605
Other income (expense):		
Investment income, net	176,434	210,814
Other expense, net	(35,651)	(407,449)
	140,783	(196,635)
Income before provision for income taxes	4,307,432	4,197,970
Provision for income taxes:		
Federal	1,777,896	1,330,500
State	401,955	294,344
	2,179,851	1,624,844
Net income	$ 2,127,581	$ 2,573,126

See accompanying notes to consolidated financial statements.

KEYSTONE PEER REVIEW ORGANIZATION, INC.
AND SUBSIDIARIES AND AFFILIATE

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2014 and 2013

	2014	2013
Net income	$ 2,127,581	$ 2,573,126
Other comprehensive income:		
Unrealized gain on available-for-sale investments, net of taxes and reclassification adjustment for losses included in income	91,187	151,406
Comprehensive income	$ 2,218,768	$ 2,724,532

See accompanying notes to consolidated financial statements.

KEYSTONE PEER REVIEW ORGANIZATION, INC.
AND SUBSIDIARIES AND AFFILIATE

Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2014 and 2013

	Common Stock	Accumulated Other Comprehensive Income (Loss)	Additional Paid-In Capital	Retained Earnings	Total Stockholder's Equity
Balance, December 31, 2012	$ 75	$ (137,736)	$ -	$ 31,449,648	$ 31,311,987
Net income	-	-	-	2,573,126	2,573,126
Reclassification adjustment for losses included in net income, net of deferred tax expense of $33,000	-	50,569	-	-	50,569
Net unrealized gain arising during the year, net of deferred tax expense of $68,000	-	100,837	-	-	100,837
Dividends	-	-	-	(232,649)	(232,649)
Balance, December 31, 2013	75	13,670	-	33,790,125	33,803,870
Net income	-	-	-	2,127,581	2,127,581
Restricted common stock issued	-	-	36,300	-	36,300
Capital contribution from Pennsylvania Medical Society	-	-	2,266,450	-	2,266,450
Additional paid-in capital by Keystone Acquisition Corporation	-	-	12,205,315	-	12,205,315
Reclassification adjustment for gains included in net income, net of deferred tax benefit of $8,000	-	(12,266)	-	-	(12,266)
Net unrealized gain arising during the year, net of deferred tax expense of $61,000	-	103,453	-	-	103,453
Dividends	-	-	-	(24,992,788)	(24,992,788)
Balance, December 31, 2014	$ 75	$ 104,857	$ 14,508,065	$ 10,924,918	$ 25,537,915

See accompanying notes to consolidated financial statements.

KEYSTONE PEER REVIEW ORGANIZATION, INC.
AND SUBSIDIARIES AND AFFILIATE

Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net income	$ 2,127,581	$ 2,573,126
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,619,595	1,784,866
Change in deferred income taxes	619,000	(332,000)
Provision for uncollectible accounts	-	(621,657)
Loss on disposal of property and equipment	22,920	89,534
(Gain) loss on sale of investments, available-for-sale	(652)	92,899
Gain on sale of investments, deferred compensation plan	(19,614)	(9,331)
Loss on impairment of intangibles	-	145,595
Loss on impairment of Nant Healthcare, LLC	14,309	324,999
Net increase (decrease) in contingent consideration	(100,285)	144,183
Issuance of Keystone Acquisition, Corp. restricted common stock to employees	36,300	-
(Increase) decrease in:		
Accounts receivable	(1,510,228)	2,247,875
Unbilled receivables	21,517	(793,255)
Prepaid contract costs	-	(238,754)
Prepaid expenses and other current assets	(84,301)	122,712
Increase (decrease) in:		
Accounts payable	505,049	(235,516)
Accrued liabilities	530,338	569,599
Provision for loss contracts	-	(425,000)
Deferred revenue	-	(54,613)
Billings in excess of costs and estimated earnings	1,629,230	-
Deferred compensation payable	147,907	139,463
Net cash provided by operating activities	6,558,666	5,524,725
Cash flows from investing activities:		
Purchases of property and equipment	(428,030)	(166,780)
Purchases of investments, deferred compensation plan	(703,260)	(289,316)
Purchases of investments, available-for-sale	(49,608)	(3,406,139)
Purchases of intangible assets	-	(42,263)
Proceeds from sale of investments, available-for-sale	-	1,562,958
Proceeds from sale of investments, deferred compensation plan	527,734	282,996
Acquisitions of Milliman, Engage Health, and PPHA	(4,243)	(1,006,687)
Proceeds from sale of property and equipment	2,000	14,500
Net cash used in investing activities	(655,407)	(3,050,731)
Cash flows from financing activities:		
Capital contribution from Pennsylvania Medical Society	2,266,450	-
Dividends	(13,440,291)	(232,649)
Net cash used in financing activities	(11,173,841)	(232,649)
Net increase (decrease) in cash and cash equivalents	(5,270,582)	2,241,345
Cash and cash equivalents, beginning of year	12,519,084	10,277,739
Cash and cash equivalents, end of year	$ 7,248,502	$ 12,519,084
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	$ 2,003,363	$ 1,581,787

Supplemental disclosure of noncash investing and financing activities:
In connection with the 2014 acquisition of the Company described in Note 2, the Company recorded contingent consideration with a fair value of $372,000, goodwill and intangibles of $16,524,000, and additional paid-in-capital of $12,205,315 to adjust recorded balances to fair value.

The Company transferred investments in the amount of $11,820,966 to Pennsylvania Medical Society as a noncash dividend.

See accompanying notes to consolidated financial statements.

(1) Organization and Purpose

Keystone Peer Review Organization, Inc (KEPRO) and Subsidiaries and Affiliate (collectively the Company) is a leading care management and quality improvement organization that provides solutions to public and commercial market places. Services include utilization review; case and disease management; quality improvement; and healthcare analytics. KEPRO primarily services the public market segment, while KEPRO Acquisitions, Inc. provides the same medical management services to the commercial healthcare sector. Ohio KEPRO, Inc. serves as the Centers for Medicare & Medicaid Services (CMS) quality improvement organization (QIO), protecting the rights and improving the health of Medicare beneficiaries in 34 states. The Company's consolidated financial statements are included in Keystone Acquisition Corporation's (KAC) consolidated financial statements.

The Company's consolidated financial statements were included in the Pennsylvania Medical Society's (the Society) combined financial statements prior to the business combination (see Note 2), along with the Society's other related entities: PennMed Member Services Company (PMSCO), PennMed, Inc. (PennMed), The Foundation of the Pennsylvania Medical Society (the Foundation), Pennsylvania Medical Society Alliance (the Alliance), Pennsylvania Medical Political Action Committee (PAMPAC), and Pennsylvania Medical Society Political Action Committee - Federal (PAMSPAC).

Principles of Combination

The consolidated financial statements include the consolidated accounts of KePRO's two wholly-owned subsidiaries, KePRO Acquisitions, Inc. and Ohio KePRO, Inc. All significant intercompany transactions have been eliminated in the consolidation.

(2) Business Combinations

The Company was acquired by KAC under a stock purchase agreement on May 16, 2014. In accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 805, *Business Combinations*, the Company elected the accounting alternative under Accounting Standard Update 2014-17 (ASU 2014-17) to apply pushdown accounting which allows KAC to adjust the Company's financial statements to the basis of accounting of KAC. The aggregate purchase was $23,910,415. The transaction was accounted for using the purchase method of accounting and the excess of the purchase price over the fair value of the net assets is recorded as goodwill.

Continued...

(2) Business Combinations, Continued

The acquisition-date fair values of the total cash consideration transferred by KAC included in the consolidated financial statements of the Company are as follows:

Goodwill	$ 4,266,000
Customer Contracts	8,400,000
Proprietary Technology	2,230,000
Trademark	2,000,000
Contingent Payment	(372,000)
	$ 16,524,000

(3) Summary of Significant Accounting Policies

Revenue Recognition

The majority of the Company's revenues are derived from cost-plus-fixed-fee, cost-plus-award-fee, firm-fixed-price, firm-fixed-price/units of service, or time-and-materials contracts. Under cost-plus-fixed or award-fee contracts, revenues are recognized as costs are incurred and include an estimate of applicable fees earned. Under firm-fixed-price contracts, including units of service, revenues are estimated on the percentage of completion method, on the basis of costs incurred in relation to estimated total costs, or upon delivery of specific products or services, as appropriate. For firm-fixed-price/units of service contracts, any deferred costs are amortized on a straight-line basis over the estimated units to be produced under the contract. For time-and-materials contracts, revenues are computed by multiplying the number of direct labor hours expended in the performance of the contract by the contract billing rates and adding other billable direct costs. Performance incentives are incorporated in certain contracts, which provide for increases or decreases in revenues based on actual performance compared to established targets. Incentives based upon cost performance are recorded when earned and other incentives and awards are recorded when the amounts are earned and can be reasonably determined, or are awarded.

In accordance with industry practice, contracts-in-process and accounts receivable contain amounts relating to contracts and programs with long production cycles, a portion of which may not be realized within one year.

Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of three months or less.

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(3) Summary of Significant Accounting Policies, Continued

Accounts Receivable

The Company extends credit to its customers in the ordinary course of business, but mitigates the associated credit risk by actively pursuing past due accounts. The Company determines its allowance by reviewing substantially all older customer account balances and determining which of those balances, in whole or in part, may be uncollectible. Accounts that are deemed uncollectible are subsequently written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. No allowance for doubtful accounts has been recorded at December 31, 2014 and 2013, since management considers all accounts receivable to be fully collectible.

Investments

The Company's investments in debt, equity, and real estate investment trust (REIT) securities are classified as available-for-sale securities and reported at fair value. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported as accumulated other comprehensive income or loss, a separate component of stockholder's equity. Dividend and interest income from investments is recognized when earned. In connection with the purchase of the Company by KAC, the Company transferred investments in the amount of $11,820,966 to the Society during 2014.

The Company's investment in an unconsolidated subsidiary, DynKePRO, LLC (DynKePRO), in which the Company has greater than a 20% interest and otherwise exercises significant influence is accounted for by the equity method and, consequently, is carried at cost, adjusted for the Company's proportionate share of its undistributed earnings or losses. The Company plans to liquidate its investment in DynKePRO in the future because DynKePRO's contract has been terminated. The Company recorded a liability of $91,962 to DynKePRO in accrued liabilities as of December 31, 2014 and 2013.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. FASB ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Continued...

(3) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

FASB ASC 820 establishes a fair value hierarchy to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets. The highest possible level should be used to measure fair value. FASB ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to FASB ASC 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as level 3.

For 2014 and 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Corporate Bonds, Mutual Funds, Exchange Traded Funds and Real Estate Investment Trusts

The Company's investments in corporate bonds, mutual funds, exchange traded funds and publicly traded REITs are generally valued using quoted market prices for identical securities. The Company's investments in non-public REITs were valued based on estimates using historical prices, as there was no current quoted or observable market price.

Contingent Consideration

The fair value of contingent consideration recognized in connection with the acquisition of Engage Health was determined by estimating the revenue expected to be earned over the ten-year period from the date of acquisition using a discount rate of 18%. The fair value of the contingent consideration recognized in connection with the acquisition of PPHA was determined by estimating the number of new members to be managed through the technology from the date of acquisition to June 30, 2013 using a discount rate of 18%.

Continued...

(3) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

Contingent Consideration, Continued

The acquisition of Engage Health includes a contingent consideration arrangement that requires additional consideration to be paid by the Company equal to 3% of revenue earned over a ten-year period related to the technology acquired. The amounts are payable on a semi-annual basis. The fair value of the contingent consideration liability is determined using level 3 inputs.

The acquisition of PPHA included a contingent consideration arrangement that required additional consideration to be paid by the Company for each new member managed through the technology acquired over a three-year period. The additional consideration was generally 36 cents per new member. The amounts were payable on an annual basis. The fair value of the contingent consideration liability was determined using level 3 inputs.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of December 31:

	2014			
	Total	Level 1	Level 2	Level 3
Investments, deferred compensation plan	$ 908,234	$ 908,234	$ -	$ -
Investment in Nant Healthcare, LLC	185,691	-	-	185,691
Total assets	$ 1,093,925	$ 908,234	$ -	$ 185,691
Deferred compensation liability	$ 908,392	$ 908,392	$ -	$ -
Contingent consideration	186,269	-	-	186,269
Total liabilities	$ 1,094,661	$ 908,392	$ -	$ 186,269

	2013			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities	$ 11,325,591	$ 11,325,591	$ -	$ -
Investment in Eviti, Inc.	200,000	-	-	200,000
Investments, deferred compensation plan	737,555	737,555	-	-
Total assets	$ 12,263,146	$ 12,063,146	$ -	$ 200,000
Deferred compensation liability	$ 760,485	$ 760,485	$ -	$ -
Contingent consideration	290,797	-	-	290,797
Total liabilities	$ 1,051,282	$ 760,485	$ -	$ 290,797

Continued

(3) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

As of December 31, 2014, the Company valued its investment in Nant Health, LLC. (Nant, formerly known as Eviti, Inc) at fair value on a nonrecurring basis. The investment in Nant is considered a level 3 asset at December 31, 2014. The fair value of Nant was estimated based on a market approach, which generally consists of using comparable market transactions. The actual proceeds received on disposition of this investment may differ from amounts included in the accompanying consolidated financial statements.

The changes in level 3 assets and liabilities measured at fair value on a recurring basis and nonrecurring basis are summarized below:

	Contingent Consideration
Balance, December 31, 2012	$ 1,153,301
Change in fair value	532,683
Reduction to earnout liability	(388,500)
Payments	(1,006,687)
Balance, December 31, 2013	290,797
Reduction to earnout liability	(100,285)
Payments	(4,243)
Balance, December 31, 2014	$ 186,269

	Investment in Nant
Balance, December 31, 2012	$ 524,299
Impairment loss	(324,299)
Balance, December 31, 2013	200,000
Impairment loss	(14,309)
Balance, December 31, 2014	$ 185,691

Unbilled Receivables

Unbilled receivables represent the difference between revenues earned and revenues billed.

Continued...

(3) Summary of Significant Accounting Policies, Continued

Prepaid Contract Costs

Prepaid contract costs represent costs on contracts-in-process that have not yet been recognized as costs and expenses because the related sales, which are primarily recorded using the units-of-delivery method, have not been recognized.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using accelerated methods over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful lives of the assets.

Maintenance and repairs are charged to operations as incurred. Betterments and renewals are capitalized. Gains or losses resulting from sale or disposal are included in operations.

Intangible Assets

Intangible assets consist primarily of proprietary technology, trademarks and customer contracts. The straight line method of amortization is used for financial reporting purposes over estimated useful lives ranging from ten years to the terms of the contracts plus renewal years.

During 2014, intangible assets consisting of purchased technology, software and customer relationships, in the amount of $4,318,735 were adjusted to fair value upon the business combination as noted in Note 2.

During 2013, the Company reduced its value in customer relationships by $145,595. To determine the amount of the reduction, the Company valued its customer relationships on a nonrecurring basis. Because the estimated fair value is derived from model-based techniques in which at least one significant input is unobservable and is based on the Company's own estimates about the assumptions that market participants would use to value the asset, it is considered a level 3 measurement under FASB ASC 820.

Continued...

(3) Summary of Significant Accounting Policies, Continued

Goodwill

Effective May 16, 2014, the Company elected the accounting alternative under Accounting Standard Update 2014-02 (ASU 2014-02) which allows the amortization of all existing and new goodwill. Under ASU 2014-02, goodwill is amortized on a straight-line basis over ten years or less than ten years, if the entity demonstrates that a shorter useful life is more appropriate. In addition, entities are required to test goodwill for impairment only upon the occurrence of a triggering event and, upon adoption of the accounting alternative an entity must make an accounting policy election to test goodwill for impairment at either the entity level or the reporting-unit level. Management has elected to amortize goodwill over ten years and test for impairment at the entity level. No impairment of goodwill or other intangibles was recognized during the years ended December 31, 2014 and 2013.

Billings in Excess of Costs and Estimated Earnings

Billing in excess of costs and estimated earnings represents revenue collected but not earned.

Provision for Loss Contracts

When management determines that a contract's cost will exceed the expected revenue, additional contract costs are accrued as a provision for loss contracts in order to accrue the entire estimated loss in the current period.

Impairment of Long-Lived Assets

Whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be fully recoverable, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. If any impairment were indicated as a result of this review, the Company would recognize a loss based on the amount by which the carrying amount exceeds the estimated discounted future cash flows.

Continued...

(3) Summary of Significant Accounting Policies, Continued

Income Taxes

Income taxes in the accompanying consolidated financial statements were computed in accordance with FASB ASC 740, *Income Taxes*. This standard requires an asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the book and tax bases of assets and liabilities, as well as the estimated future tax consequences attributable to net operating loss and tax credit carryforwards. A valuation allowance is established if, based upon all available information, it is deemed more-likely-than-not that a portion or all of a deferred tax asset will not be realized.

FASB ASC 740 prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. In addition, FASB ASC 740 provides guidance on derecognition, classification and disclosure.

The Company files income tax returns in U.S. federal and various state jurisdictions. The Company's tax returns are subject to examination by the relevant tax authorities until expiration of the applicable statute of limitations, which is generally three years after the filing of the tax return. It is difficult to predict the final timing and resolution of any particular uncertain tax position. Based on the Company's assessment of many factors, including past experience and complex judgments about future events, the Company does not currently anticipate significant changes in its uncertain tax positions over the next 12 months.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. As described in Note 5, the Company's investment in Nant is in the form of a security for which there is no quoted or observable market price. The consolidated balance sheet reflects this investment at its impaired value of $185,691, which management believes is not greater than fair value. As described within Note 3, the Company has estimated the contingent consideration related to its acquisition of Engage, and the actual fair value could differ from this estimate.

Continued...

(3) Summary of Significant Accounting Policies, Continued

Concentrations of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable and investments. The Company principally utilizes one national bank to maintain its operating cash accounts and temporary investments. At certain times, such balances may be in excess of the FDIC insurance limits. Accounts receivable and unbilled receivables consist primarily of receivables from government agencies. The Company maintains a reserve for potential credit losses and such losses have been within management's expectations. The Company invests in professionally managed mutual funds. Finally, the Company holds an investment in Nant, a privately-held entity, and is subject to restrictions on the transfer or sale of the Company's interest.

Reclassifications

Certain items in the accompanying 2013 financial statements were reclassified to conform to the current year presentation.

Subsequent Events

The Company has performed an evaluation of subsequent events through March 10, 2015, which is the date the consolidated financial statements were available to be issued.

(4) Property and Equipment

Property and equipment consist of the following at December 31:

	Estimated Useful Lives	2014	2013
Leasehold improvements	2 - 10 years	$ 316,925	$ 212,984
Vehicles	5 years	52,358	52,358
Furniture and equipment	5 years	1,176,235	1,777,340
EDP equipment	5 years	1,448,668	2,826,346
Computer software	3 - 5 years	569,226	4,375,217
		3,563,412	9,244,245
Accumulated depreciation		(2,899,867)	(8,635,175)
		$ 663,545	$ 609,070

Depreciation expense in 2014 and 2013 was $348,635 and $471,649, respectively.

(5) Investments

Investments consist of the following at December 31:

	2014	2013
Current investments:		
Investments, available-for-sale:		
Mutual funds:		
Fixed income, at fair value	$ -	$ 6,298,162
Domestic equity, at fair value	-	2,724,395
International equity, at fair value	-	425,897
Exchange traded funds:		
Domestic equity, at fair value	-	1,146,030
International equity, at fair value	-	180,156
REITs, at fair value	-	550,951
	-	11,325,591
Investment in affiliated company	(91,962)	(91,962)
	(91,962)	11,233,629
Long-term investments:		
Mutual funds held under deferred compensation plan	908,234	737,555
Investment in Nant, at impaired value	185,691	200,000
	$ 1,001,963	$ 12,171,184

Investment income consisted of the following for the years ended December 31:

	2014	2013
Dividends	$ 156,168	$ 294,383
Realized gains (losses)	20,266	(83,569)
	$ 176,434	$ 210,814

The Company holds investments in mutual funds. Prior to the transfer of investments (Note 2), the Company also held investments in exchange traded funds and real estate investment trusts that purchased and managed commercial real estate properties, including multi-tenant shopping office, warehouse, industrial and manufacturing facilities throughout the United States. These investments were considered available-for-sale.

Continued...

(5) Investments, Continued

The Company contributed $500,000 during 2006 for a 12% investment in Nant, a company in which it does not have the ability to exercise significant influence. The Company contributed an additional $24,999 during 2007. The investment is recorded at cost and is periodically reviewed for impairment. For the year ended December 31, 2014, management concluded that there was an impairment in the value of this investment of $14,309. For the year ended December 31, 2013 management concluded there was an impairment in the value of the investment of $324,999.

(6) Intangible Assets and Goodwill

Intangible assets consist of the following at December 31:

	Estimated Useful Lives	2014 Gross Carrying Amount	Accumulated Amortization
Customer contracts	Life of the contract	$ 8,400,000	$ (1,290,672)
Goodwill	10 years	5,051,811	(315,738)
Proprietary technology	10 years	2,230,000	(139,375)
Trademark	20 years	2,000,000	(62,500)
		$ 17,681,811	$ (1,808,285)

	Estimated Useful Lives	2013 Gross Carrying Amount	Accumulated Amortization
Purchased technology	5 years	$ 1,432,691	$ (1,002,885)
Software in development	7 years	4,345,287	(1,084,074)
Customer relationships	10 years	1,593,629	(608,728)
Goodwill	N/A	785,762	-
		$ 8,157,369	$ (2,695,687)

Continued...

(6) Intangible Assets, Continued

Amortization expense for the years ended December 31, 2014 and 2013 was $2,165,473 and $1,092,391, respectively. The estimated amortization for the five subsequent fiscal years and thereafter is as follows:

Year Ending December 31,	Amount
2015	$ 2,954,532
2016	$ 2,459,903
2017	$ 1,931,291
2018	$ 1,537,126
2019	$ 1,344,900
Thereafter	$ 5,645,774

(7) Line of Credit

The Company and its subsidiaries have available an unsecured line of credit totaling $5,000,000. The line requires monthly interest payments on outstanding balances at the 30-day LIBOR rate plus 2.00% (3.16% at December 31, 2014). In connection with the line of credit the Company has available a $5,000,000 letter of credit. No balance is outstanding under this line of credit as of December 31, 2014.

(8) Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2014	2013
Payroll	$ 2,472,241	$ 1,369,525
Payroll and other taxes	177,569	98,616
Vacation benefits	656,850	515,877
Employee benefits	180,827	178,317
Income taxes	53,742	660,663
Other accrued expenses, primarily subcontractor costs	885,506	1,073,399
	$ 4,426,735	$ 3,896,397

(9) Operating Revenue

The Company has five contracts that together represented 75% and 76% of the Company's revenue for 2014 and 2013, respectively. These contracts are expected to generate additional revenues of approximately $227,225,000 through the remainder of their terms if they are not terminated. Two contracts expire in 2019, one contract expires in 2016 and two contracts expire in 2015. All contracts have termination clauses requiring written notice of 30 to 90 days that allow the contract to be terminated without cause. Four contracts represent 61% of accounts receivable and unbilled receivables at December 31, 2014.

(10) Profit Sharing Plan

The Company has a contributory profit sharing plan under Internal Revenue Code Section 401(k) covering all employees. Plan contribution expense for 2014 and 2013 was $670,693 and $768,827, respectively.

(11) Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan providing certain employees with the opportunity to defer portions of their compensation. Plan contribution expense for 2014 and 2013 was $28,169 and $33,119, respectively. Each plan year, the Company contributes an amount equal to the lesser of: (1) 50% of the amount which the participant elected to defer under this plan plus the amount which the participant actually contributed for the plan year to the Company's 401(k) plan, and, (2) 5.0% of the participant's compensation less the amount which the Company actually contributed to the Company's 401(k) plan on behalf of the participant for the plan year. Investments under the plan, which consist of mutual funds, are participant directed, and participants are entitled to the earnings on investment balances. The assets are subject to the general creditors of the Company.

(12) Related Party Transactions

In 2013, the Company leased its primary corporate office facility from the Society under a long-term lease agreement that expired December 31, 2013.

In 2013, the Company contributed $100,000 to the Foundation.

(13) Income Taxes

The provision for income tax expense includes income taxes currently payable and those deferred because of temporary differences between the financial statements and tax bases of assets and liabilities. The temporary differences are primarily related to the allowance for doubtful accounts, unrealized gains and losses on investments, deferred compensation, depreciation of property and equipment, amortization of goodwill and other intangibles, state net operating losses, and certain accrued expenses. The provision for income tax expense for the years ended December 31, was as follows:

	2014	2013
Current:		
Federal	$ 1,258,896	$ 1,603,500
State	301,955	353,344
Deferred:		
Federal	519,000	(273,000)
State	100,000	(59,000)
	$ 2,179,851	$ 1,624,844

Deferred taxes are reported on the balance sheets as follows:

	2014	2013
Current assets	$ 85,000	$ 598,000
Noncurrent assets	167,000	334,000
	$ 252,000	$ 932,000

(14) Commitments and Contingencies

The Company leases various office facilities under long-term lease agreements, which are classified as operating leases. Certain leases provide for payment of occupancy costs, plus additional rentals based on increases in lessors' executory costs. For 2014 and 2013, total rental expense under all lease agreements amounted to $1,245,883 and $926,844, respectively. Future minimum lease payments are as follows:

Year Ending December 31,	Amount
2015	$ 1,354,027
2016	$ 1,310,395
2017	$ 1,129,236
2018	$ 1,158,900
2019	$ 694,607
Thereafter	$ 10,015

The Company has cost reimbursement type contracts with the U.S. government. Consequently, the Company is reimbursed based upon its direct expenses attributable to the contract plus a percentage based upon overhead and general and administrative expenses. The overhead and general and administrative rates are provisional. Accordingly, if the actual rates as determined by the Defense Contract Audit Agency are different than the provisional rates, there would be an amount due to or from the U.S. government. Audits through December 31, 2004 have been completed and resulted in no material adjustments. Although the audits for the years ended December 31, 2005 through 2014 have not been completed, they are not expected to have a material effect on the results of future operations. At December 31, 2014, the Company has a net liability related to the provisional rates of approximately $970,000. At December 31, 2013, the Company has a receivable related to the provisional rates of approximately $635,000.

The Company is involved in litigation during the normal course of business. Management does not believe the outcome of any litigation would have a material adverse effect on the financial position of the Company.

The Company has agreements with certain executives which require lump-sum payments to be made to the executives if the executives are terminated without cause. Because payment of the amounts are not certain, the Company has not accrued or funded the cost of such benefits.

SUPPLEMENTARY INFORMATION

**KEYSTONE PEER REVIEW ORGANIZATION, INC.
AND SUBSIDIARIES AND AFFILIATE**

Supplementary Information
Consolidated Cost of Services
Years Ended December 31, 2014 and 2013

	2014	2013
Direct costs:		
Direct labor	$ 14,792,982	$ 11,361,683
Physician fees	2,967,041	1,920,323
Subcontracts	1,103,891	954,568
Travel	257,818	180,195
Data processing	357,071	954,596
Miscellaneous direct costs	2,472,235	1,852,184
	$ 21,951,038	$ 17,223,549
Indirect, general and administrative costs:		
Labor	$ 5,870,962	$ 4,682,196
Employee benefits and payroll taxes	6,554,932	6,237,584
Data processing	748,729	736,228
Printing and reproduction	9,431	14,136
Professional fees	1,637,628	1,137,819
Travel	175,462	364,472
Telephone	526,625	283,729
Postage	54,915	40,407
Rent, office space	1,245,883	926,844
Office supplies	48,714	46,162
Insurance	185,444	107,739
Depreciation and amortization	2,156,568	466,695
Dues and subscriptions	172,585	191,116
Other expenses	413,177	1,655,074
	$ 19,801,055	$ 16,890,201